Bank Saderat Iran

United Arab Emirates

Market Discipline – (Disclosure)

(BASEL II, Pillar III Report)

Submitted to

Central Bank of the United Arab Emirates

Banking Supervision and Examination Department

Approved by

Regional Office in the UAE

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Prepared by
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Concurred by
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As per Appendix 7 –Pillar 3 Suggested Report Formats - Summary		
S. No	**Table**	**Description**
1	Table (1)	Information on subsidiaries and significant investments
2	Table (2)	Consolidated Capital structure
3	Table (3a and 3b)	Capital Adequacy
4	Table 4(a)	Qualitative Disclosures
5	Table 4(b)	Gross Credit Exposures by Currency type
6	Table 4(c)	Gross Credit Exposures by Geography
7	Table 4(d)	Gross Credit Exposure by Industry Segment
8	Table 4(e)	Gross Credit Exposures by Residual Contractual maturity
9	Table 4(f)	Impaired loans by Industry segment
10	Table 4(g)	Impaired loans by Geographic Distribution
11	Table 4(h)	Reconciliation of changes in provision for impaired loans for the period
12	Table 4(i)	Loan Portfolio as per Standardized Approach
13	Table 5 (a & b)	Qualitative Disclosures
14	Table 7 (a, b & c)	Credit Risk Mitigation: Disclosures for Standardized Approach
15	Table 10	Total Capital requirement for Market Risk under Standardized Approach
16	Table 13	Equity position in the Banking Book
17	Table 14	Interest Rate Risk in the Banking Book (IRRBB)

Table (1)

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENTS AS ON 31-12-2014

Basis of Consolidation[1] :

	Country of Incorporation	% Ownership	Description[2]	Accounting Treatment[3]	Surplus Capital[4]	Capital Deficiencies[5]	Total Interests[6]
Subsidiaries							
Significant investments							

Restrictions on transfer of regulatory capital within the group:

1. Include an outline of differences in the basis of consolidation of subsidiaries for accounting and regulatory purposes.
2. A brief description of the entities within the group such as securities, insurance, other financial subsidiaries, commercial subsidiaries, significant minority equity investments in insurance, financial and commercial entities.
3. Report the accounting treatment as:

- that are fully consolidated;
- that are pro-rata consolidated;
- that are given a deduction treatment;
- those from which surplus capital is recognized, and
- that are neither consolidated nor deducted (e.g. where the investment is risk weighted)

4. The aggregate amount of surplus capital of insurance subsidiaries (whether deducted or subjected to an alternative method) included in the capital of the consolidated group. Surplus capital in unconsolidated regulated subsidiaries is the difference between the amount of investment in those entities and their regulatory capital requirements.
5. The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. they are deducted.
6. The aggregate amounts (e.g. current book value) of the licensed bank's total interests in insurance entities, which are risk-weighted rather than deducted from capital or subjected to an alternate group-wide method, as well as, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this (it's required to method) versus using the deduction or alternate group wide method

Table (2)

CONSOLIDATED CAPITAL STRUCTURE AS ON 31-12-2014 **(AED 000's)**

	Summary terms and conditions of main features of all capital instruments	Amount
Tier 1 Capital		
1. Paid up share capital/common stock	Received from the Head Office, BSI, Tehran, I.R.Iran.	1,500,000
2. Reserves		
a. Statutory reserve	Article 82 of Union Law No. 10 of 1980 requires that 10% of the net profit is transferred to a special reserve until such reserve equals 50% of the assigned capital. This reserve is not available for distribution	509,418
b. Special reserve		-
c. General reserve 2		105,003
3. Minority interests in the equity of subsidiaries		-
4. Innovative capital instruments 1		-
5. Other capital instruments (Retained Earnings)	Balance of retianed earning	1,439,550
6. Surplus capital from insurance companies		
Sub-total		3,553,971
Less: Deductions for regulatory calculation		-
Less: Deductions from Tier 1 capital		-
Tier 1 Capital - Subtotal		3,553,971
Tier 2 capital (Subordinated term loan)	*	600,000
Less: Other deductions from capitals		-
Tier 3 capital		-
Total eligible capital after deductions		4,153,971

* subordinated loans represent three loans obtained from the Head Office. A) A loan of US$ 54.45 million (AED 200 million) obtained in May 2002, which is renewable annually for a further period of 6 years and bears interest at LIBOR (6 month deposit) plus 0.5% per annum. B) A loan of US$ 27.23 million (AED 100 million) obtaiend in May 2004, which is renewable annually for a further period of 6 years and bears interest at LIBOR (6 month deposit) plus 2.75 per annum. C) A loan of USD 81.68 million (AED 300 million) obtained in October 2011, which is renewable annually for a further period of 6 years and bears interest at LIBOR (6 month deposit) plus 2.75% per annum.

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step-ups in instruments issued through SPV's, as well as directly issued Tier I instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible for inclusion in Tier I capital- 27 October 1988) and limited to a maximum of 15% of Tier I capital.

2. Including undisclosed reserves, revaluation reserves, general provisions/general loan loss reserves Hybrid debt capital instruments and subordinated debt.

Table (3a and 3b)

CAPITAL ADEQUACY AS ON 31.12.2014

a) Qualitative Disclosures			
Refer [Table 3A3B-1] on page # (4)			
b) Quantitative Disclosures		**Capital Charge (AED 000's)**	**Capital Ratio (%)**
	Capital Requirements		
	1. Credit Risk		
	a. Standardized Approach	1,319,728	
	b. Foundation IRB		
	c. Advanced IRB		
	2. Market Risk		
	a. Standardized Approach	12,628	
or	b. Models Approach		
	3. Operational Risk		
	a. Basic Indicator Approach	230,196	
or	b. Standardized Approach/ASA		
or	c. Advanced Measurement Approach		
	Total Capital requirements	1,562,552	
	Capital Ratio		29.98%
	a. Total for Top consolidated Group		
	b. Tier 1 ratio only for top consolidated Group		
	c. Total for each significant bank subsidiary		

Table 3A3B-1

"Include here a description of the approach taken by the bank to assess the adequacy of its capital to support current and future activities. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies as per Para 824 of Basel II"

Risk Management Strategy

Bank Saderat Iran - UAE 'the Bank' Risk Management function contributes to the Bank's success by promoting a disciplined risk culture and creating risk transparency. It also ensures that we adopt a prudent and intelligent approach to risk-taking that appropriately balances risk and return and optimizes the allocation of capital throughout the Bank to benefit shareholders and other stakeholders. A significant number of employees and considerable technological resources are focused on ensuring that the Bank remains a top in the field of risk management. Moreover, through its proactive risk management culture and the appropriate qualitative and quantitative tools, the Bank strives to minimize the potential for undesired risk exposures in its operations. The essential functions of risk management are to identify measure and more importantly monitor the profile of the bank.

Key Objectives of BSI, UAE Risk Management

Prudent risk-taking is an integral part of the Bank daily business. The most important objectives of the Bank risk management strategy are to protect the human resources strength, financial strength of our business and to safeguard our reputation. The Bank risk management framework is therefore founded on the following principles, which apply for all businesses and risk categories.

Protection of Human Resources strength

At the Bank, we carefully monitor, control, and measure risk to limit the impact of potentially adverse events on our human resources as a very important assets of our organization. It is essential for our risk appetite to be consistent with our human resources.

Protection of financial strength

At the Bank, we carefully monitor, control, and measure risk in order to limit the impact of potentially adverse events on our capital and income streams. It is essential for our risk appetite to be consistent with our financial resources.

Safeguarding of reputation

The value of our organization depends on our reputation. All of our employees are therefore committed to maintaining our good reputation.

Risk transparency

Risk transparency is essential in order to ensure that risks are well understood by senior management and at all levels, which can be balanced against business goals.

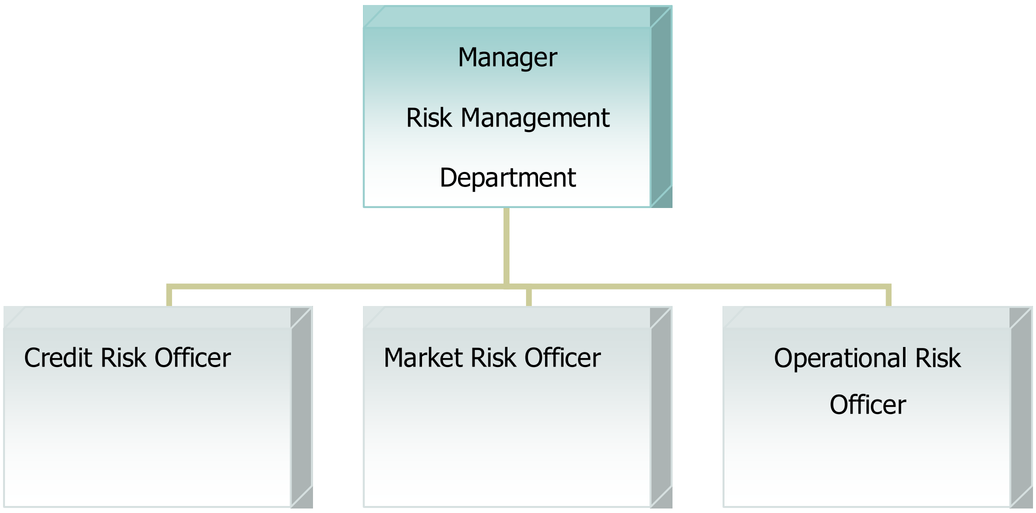
Management accountability

Our various businesses own the risks that are assumed in the execution of their operations. The leaders of our respective businesses are responsible for the active management of risk exposures and for the return generated on the basis of the risks that were assumed.

Independent oversight

Risk management is a structured process that is used to identify measure, monitor, manage and report risk. The Risk Management functions operate independently of the front-office units to ensure the integrity of risk and control processes.

Bank Saderat Iran, UAE, Risk Management Department Organizational Structure

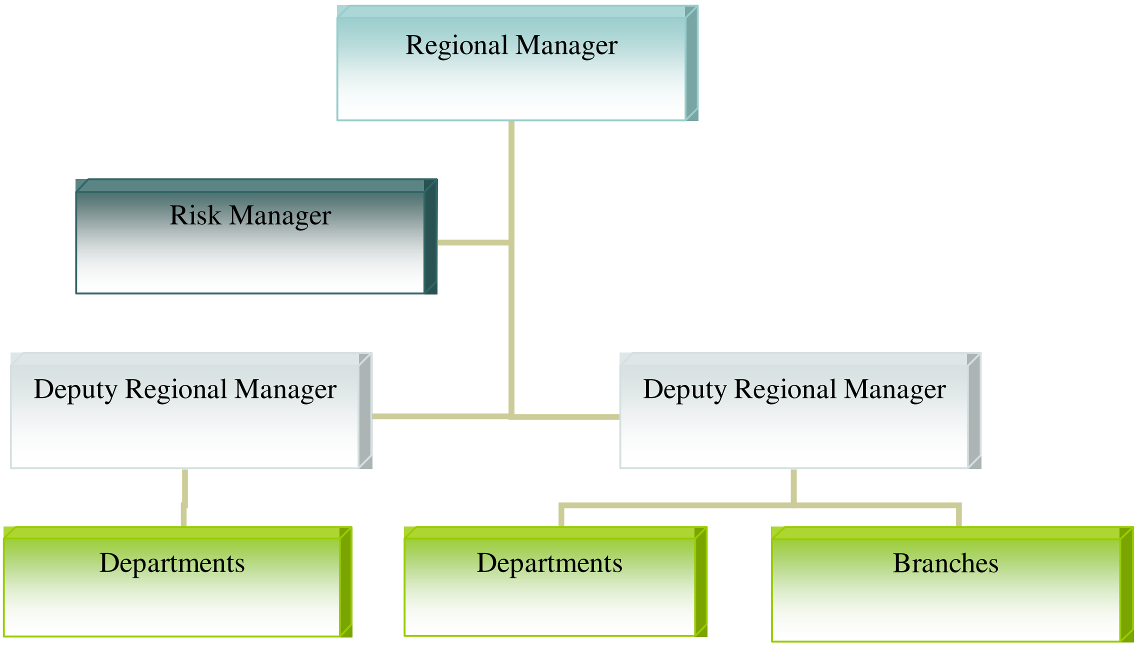


Reporting

Risk Manager is responsible to report only to the Regional Manager

Risk Manager will receive variety types of reports from Branches and Departments for identifying risk related issues.

Reporting Structure



Computation of Capital Adequacy and its Approach

All the Banks in the UAE were required to keep a Minimum Capital Adequacy Ratio of **11%** which is increased to **12%** effective from June 2010 according to the CBUAE Circular No. 27/2009 dated 17 Nov 2009 for Pillar I of the Basel II capital accord. Based on the analysis and upon conducting a stress test scenarios, the Risk Management Department proposed the Internal Capital Adequacy Ratio to be set at **13.30%**, accordingly on review and discussions the Top Management approved. Hence, the Internal Capital Adequacy Ratio of the Bank is set at **13.30%**, until unless subject to any material changes effecting the Capital, Balance Sheet or Risk Weighted Assets. The Bank has opted for Standardized approaches for Credit Risk and Market Risk and Basic Indicator of Operational Risk as per Basel II and National Discretion under Pillar I for the calculation of minimum capital Requirement, which covers most of the risk factors related to the Bank. The Bank relies on Basic methods of calculating minimum capital requirements in the assessment of individual risk types.

Risk Management Activity

The Bank has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of their day to day operations:

Credit Risk

Market Risk

Operational Risk

The Regional Manager has overall responsibility for the oversight of the risk management framework for the Bank. There are established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the operations of the Bank.

The Credit Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the Regional Manager to set up risk limits and manage the overall risk. These Committees approve risk management policies of the Bank developed by Risk Management Department.

The Risk Management function is independent of the business. It is responsible to develop credit, market and operational risk policies. Risk Managers are delegated authority within the risk management framework to approve credit risk transactions. Risk Management Department also monitors Market and

Operational risk. The Credit Risk Unit within Risk Management Department is responsible to develop and validate financial risk models for risk rating.

Audit and Compliance is an independent department which is responsible to review the risk policies, risk exposures and the risk managing and monitoring frame work.

Treasury

The Treasury is responsible for managing the assets and liabilities of the Bank and its overall financial structure. It is also primarily responsible for the funding and liquidity, interest rate, and exchange rate fluctuation exposure risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the compliance by the Bank with these procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Regional Manager.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect their business strategy and market environment of the Banks as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Regional Manager, the Risk Committee, and the Head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Relevant Committee assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Regional Manager receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Assistant Regional Manager and all other relevant members of management of the Bank on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collaterals to reduce its credit risks.

Table 4(a)

Qualitative Disclosures

Refer [Table 4A-1] on page # (15)		
Refer [Table 4A-2] on page # (17)		
Specific		
General		
Discussion of Bank's credit risk management policy		
Refer [Table 4A-3] on page # (19)		
Partial adoption of foundation IRB/advanced IRB **Refer [Table 4A-4] on page # (23)**		
Approach	**Description of exposures**	**Plans and timing of migration to implement fully higher approach**
Standardized Approach		
Foundation IRB		
Advanced IRB		

Table 4A-1

"Definition of past due and impaired (for accounting purposes)"

Credit review procedures and loan classification

The Internal Audit Department subjects the risk assets of the Bank to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and internal policies in order to assist in the early identification of accrual and potential performance problems.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Bank assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability base either on collateral value or the market value of the asset where such price is available.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank, are classified as past due but not impaired loans.

Impaired loans and advances

Impaired loans and advances are loan and advances for which the Bank determines whether it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s).

Table 4A-2

"Description of approaches followed for specific and general allowances and statistical methods"

Specific Provision

The Bank establishes an allowance for impairment losses that represent its estimate of incurred losses in the loan portfolio. Specific allowances are made in respect of individually significant exposures where losses have been incurred. Management also assesses a need for collective impairment provisioning to cover for losses that they believe have been incurred but not yet been identified or reported.

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realization costs.

General Provision

In addition to specific provisions against individually significant loans and advances, the Bank also assesses the need for collectively. The collectively assessed allowances are made in respect of losses incurred in portfolios of loans with common features and where individual loan amounts are not significant.

The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the end of the reporting period.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly.

Table 4A-3

"Discussion of Bank's credit risk management policy"

Credit Risk Management

The Regional Office has delegated responsibility for the management of credit risk to its Credit Committee and the Credit Risk Management Department. Their responsibilities include:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Facilities Committee, Head of Credit Facilities or Regional Credit Facilities Committee.
- Reviewing and assessing credit risk. Credit Facility Department and Risk Management Department assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewal and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the Bank's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The grading system is used in determining where impairment provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Credit facility Department, Branches and Risk Management Department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Regional Credit Facility Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Branches in the management of credit risk.

Policies relating to credit are reviewed and approved by the Regional Credit Facility Committee. All credit lines are approved centrally for the Bank in accordance with the credit policy set out in the Credit Policy Manual. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.

The Bank further limits risk through diversification of assets by geography and industry sectors.

All credit facilities are administered and monitored by the Credit Facility Department. Periodic reviews are conducted by the credit Officer and also by Credit facility Department.

Cross border exposure and financial institutions exposure limit for money market and treasury activities are approved as per guidelines established by the regional Credit Facility Committee and are monitored by the Risk Management Department.

Commercial/Institutional lending

All credit applications for commercial and institutional lending are subject to the Bank's regional credit policies and to regulatory requirements, as applicable from time to time.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the credit Facility Committee or the regional manager.

The management of the Bank has established country limits for cross border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's regional credit risk management and periodically by the Credit Facility Committee.

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the regional Credit facility Committee. All approval authorities are delegated to the Credit facility Committee by the Regional Office. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product programs contains detailed credit criteria (such as salary multiplies, bank statement, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Table 4A-4

"Partial adoption of foundation IRB/advanced IRB"

Standardized Approach

The Bank is calculating Capital Adequacy Ratio with Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Credit Risk Exposure across all the Asset Class as on 31-12-2014 AED (000's) 10,970,171/-

Market Risk Exposure as on 31-12-2014 AED (000's) 105,236/-

Operational Risk Exposure as on 31-12-2014 AED (000's) 1,918,300/-

Foundation IRB

In accordance the CBUAE Circular No. 27/2009 dated 17-11-2009, the Bank has noted that the CBUAE expects the Banks in the UAE to migrate from Standardized Approach to Foundation IRB approach, in due course. The Top Management is in discussion with the concerned department heads in order to study the feasibility of migrating to foundation IRB approach. However, the Bank does not have a plan for foundation IRB approach in immediate near future, any such decision shall be communicated to CBUAE once it is materialized.

Table 4(b)

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON ______31-12-2014__________

(AED 000's)

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Foreign Currency	669,660	0	669,660	1,318	0	430,698	432,016	1,101,676
AED	9,845,511	0	9,845,511	0	0	365,958	365,958	10,211,469

Table 4(c)

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON 31-12-2014

(AED 000's)

GEOGRAPHIC DISTRIBUTION	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
United Arab Emirates	10,055,673	-	10,055,673	1,318	-	675,257	676,575	10,732,248
GCC excluding UAE	-	-	-	-	-	3,135	3,135	3,135
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia (Iran)	459,498	-	459,498	-	-	118,264	118,264	577,762
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	10,515,171	-	10,515,171	1,318	-	796,656	797,974	11,313,145

1. Concerning independent institutions insert the figures opposite the country which licensed them.
2. Concerning institutions that operate as branches for their H.O. insert the figures opposite the country where the H.O. are licensed.

Table 4(d)

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31-12-2014

(AED 000's)

INDUSTRY SEGMENT	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Gross
Agriculture, Fishing & related activities [1]	1,846	-	1,846	-	-	51	51	1,897
Crude Oil, Gas, Mining & Quarrying [2]	105,358	-	105,358	-	-	13	13	105,371
Manufacturing [3]	408,953	-	408,953	-	-	249,373	249,373	658,326
Electricity& Water	185,722	-	185,722	-	-	38	38	185,760
Construction [4]	481,883	-	481,883	-	-	122,915	122,915	604,798
Trade [5]	7,928,227	-	7,928,227	1,318	-	337,688	339,006	8,267,233
Transport, Storage & Communication [6]	14,968	-	14,968	-	-	11,590	11,590	26,558
Financial Institutions [7]	133,758	-	133,758	-	-	22,935	22,935	156,693
Services [8]	1,226,632	-	1,226,632	-	-	43,820	43,820	1,270,452
Government [9]	-	-	-	-	-	-	-	-
Retail/Consumer banking [10]	27,824	-	27,824	-	-	8,233	8,233	36,057
All Others	-	-	-	-	-	-	-	-
Total	10,515,171	-	10,515,171	1,318	-	796,656	797,974	11,313,145

1. Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing & other activities (sheep rearing, etc).
2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others.
3. Manufacturing includes food, tobacco, beverages, textile, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminum, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering works, sawmills, marble tiles and other manufacturing.
4. Construction includes construction of buildings, contractors and other construction.
5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.
6. Transport and communication includes taxies, and other land transport, water transport, air transport, warehousing, storage and others.
7. Financial institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions.
8. Services include hotel and restaurants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sports club, etc.) and other services.
9. Government includes federal government and local government.
10. Retail/consumer lending includes personal loan installments, residential mortgage loans, car loans, credit cards, other retail products, loans for investments in shares etc.

Table 4(e)

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31-12-2014

(AED 000's)

RESIDUAL CONTRACTUAL MATURITY	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded
Less than 3 months	3,585,254	-	3,585,254	1,318	-	463,274	464,592
3 months to one year	63,746	-	63,746	-	-	279,174	279,174
One to five years	6,866,171	-	6,866,171	-	-	54,208	54,208
Over five years	-	-	-	-	-	-	-
Grand Total	10,515,171	-	10,515,171	1,318	-	796,656	797,974

Table 4(f)

IMPAIRED LOANS BY INDUSTRY SEGMENT AS ON ______________31-12-2014_____________________

(AED 000's)

INDUSTRY SEGMENT	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets
	Less than 90 days	90 days and above **	Total	Specific	General	Write-offs	Write-backs	
Agriculture, Fishing & related activities 1		1,846	1,846	0				
Crude Oil, Gas, Mining & Quarrying2		4,691	4,691	620				
Manufacturing3		294,582	294,582	6,547				
Electricity& Water		0	0	0				
Construction 4		178,297	178,297	10,404				
Trade5		5,342,331	5,342,331	1,371,102				
Transport, Storage & Communication6		10,651	10,651	4,031				
Financial Institutions 7		35,147	35,147	11,180				
Services8		861,378	861,378	211,284				
Government9		0	0	0				
Retail/consumer banking1o		9,089	9,089	4,847				
All Others			0		105,003			
Grand Total		6,738,012	6,738,012	1,620,015	105,003			

1. Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing other activities (sheep rearing, etc).
2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others.
3. Manufacturing includes food, tobacco, beverages, textile, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminum, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering works, sawmills, marble tiles and other manufacturing.
4. Construction includes construction of buildings, contractors and other construction.
5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.
6. Transport and communication includes taxies, and other land transport, water transport, air transport, warehousing, storage and others.
7. Financial institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions.
8. Services include hotel and restaurants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sports club, etc.) and other services.
9. Government includes federal government and local government.
10. Retail/consumer lending includes personal loan installments, residential mortgage loans, car loans, credit cards, other retail products, loans for investments in shares etc.

** **Figures under 'Overdue more than 90 days' are include the principal amount plus 2,413,297 (figure in AED thousand) of interest in suspense**

Table 4(g)

IMPAIRED LOANS BY GEOGRAPHIC DISTRIBUTION AS ON 31-12-2014

(AED 000's)

Geographic Region	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets
	Less than 90 days	90 days and above **	Total	Specific	General	Write-offs	Write-backs	
United Arab Emirates		6,734,649	6,734,649	1,620,015				
GCC (excluding UAE)								
Arab League (excluding GCC)								
Asia		3,363	3,363	0				
Africa		0	0	0				
North America								
South America								
Caribbean								
Europe								
Australia								
Others					105,003			
Grand Total		6,738,012	6,738,012	1,620,015	105,003			

Note: Jurisdictions should not be included more than once under the geographic region

** **Figures under 'Overdue more than 90 days' are include the principal amount plus 2,413,297 (figure in AED thousand) of interest in suspense**

Table 4(h)

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS FOR THE PERIOD TO YEAR 2014

(AED 000's)

Opening Balance of Provisions for Impaired Loans		1,712,975
Add:	Charge for the year	
	• Specific provisions	128,051
	• General provisions	
Add:	Write-off of impaired loans to income statement	-58
Less:	Recovery of loan loss provisions	-115,950
Less:	Recovery of loans previously written-off	
Less:	Write-back of provisions for loans	
	Adjustments of loan loss provisions	
	Closing Balance of Provisions for Impaired Loans	1,725,018

Table 4(i)

LOAN PORTFOLIO AS PER STANDARDIZED APPROACH AS ON _________31-12-2014_____

(AED 000's)

Assets Classes	On Balance Sheet	Off Balance sheet	Credit Risk Mitigation (CRM)			Risk weighted assets
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	**Gross Outstanding**	**Net exposure after Credit Conversion Factors (CCF)**	**Exposure before CRM**	**CRM**	**After CRM**	
Claims on Sovereigns	1,572,473	-	1,572,473	-	1,572,473	-
Claims on non Central Government public sector entities. (PSE's)	-	-	-	-	-	-
Claims on multilateral development banks	-	-	-	-	-	-
Claims on banks	5,753,638	-	5,753,638	-	5,753,638	2,362,804
Claims on securities firms	-	-	-	-	-	-
Claims on Corporate	3,546,153	740,751	4,286,904	409,555	3,877,349	3,877,349
Claims included in the regulatory retail portfolio	231,967	88,424	320,391	-	320,391	302,063
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	6,738,012	-	2,704,701	-	2,704,701	3,685,959
High risk categories	-	-	-	-	-	-
Other assets	826,212	-	819,521	-	819,521	769,560
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks Selling protection)		-	-	-	-	-
TOTAL CLAIMS	18,668,455	829,175	15,457,628	409,555	15,048,073	10,997,735

Table 5 (a & b)

a) Qualitative Disclosures

• For each portfolio, name of ECAIs used, plus reasons for any changes *
• Types of exposure for which each agency is used *

LOAN PORTFOLIO AS PER STANDARDIZED APPROACH AS ON 31-12-2014

(AED 000's)

b) Quantitative	**Gross Credit Exposures**					**Exposures Subject to Deduction**				
Asset Class	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA Post CRM**	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA Post CRM**
Claims on Sovereigns										
Claims on Public Sector Entities										
Claims on Multilateral Development Banks										
Claims on securities firms										
Claims on Banks										
Claims on Corporate										
Regulatory & other retail exposure										
Residential retail exposure										
Commercial Real Estate										
Other assets										
Claims on Securitized Assets										
Credit Derivatives (Banks selling protection)										
Grand Total										

***All the exposures are taken under Unrated, as the bank does not compute as per the ECAI's ratings system, bank is in process of approaching to approved ECAI for the same in coming year.**

Table 7 (a, b & c)

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH AS ON 31-12-2014

a) Qualitative Disclosures

Policies and processes covering credit risk mitigation, including summary of:

The Bank does not engage in netting process
• Policies and processes for collateral valuation and management; **Refer [Table 7ABC-2] on page # (34)**
• Description of the main types of collateral taken by the bank; **Refer [Table 7ABC-3] on page # (35)**
• The main types of guarantor/credit derivative counter-party and their credit worthiness; **Refer [Table 7ABC-4] on page # (37)**
• Information about (market or credit) risk concentrations within the mitigation taken. **Refer [Table 7ABC-5]) on page # (39)**

(AED 000's)

b) Quantitative Disclosures	Exposures	Risk Weighted Assets
Gross Exposure prior to Credit Risk Mitigation	15,533,840	
Less: Exposure covered by on-balance sheet netting		
Less: Exposures covered by Eligible Financial Collateral	409,555	
Less: Exposures covered by Guarantees		
Less: Exposures covered by Credit Derivatives		
Net Exposures after Credit Risk Mitigation	15,124,285	10,997,735

Table 7ABC-2

"Policies and processes for collateral valuation and management"

Overview

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory and trade receivables.

The Bank also obtains guarantees from parent company when giving loans to subsidiaries or other group companies or from owners when extending credit to their businesses.

Management monitors the market value of collateral (based on values of collaterals assessed at the time of extending credit), requests additional collateral in accordance with the underlying agreement. The estimates of fair values are generally not updated except when a loan is individually assessed or impaired. Collaterals are normally not held against amounts advanced to banks.

It is the policy of the Bank to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Table 7ABC-3

"Description of the main types of collateral taken by the bank"

The types of securities/guarantees to be obtained form the customer seeking banks facilities shall be as under:

1. Banks lien on customers own or third party fixed deposit availability with the bank with proper authorization.
2. Mortgage of immovable properties.
3. Pledge of goods/gold bars/Jewellery.
4. Guarantees of other reputable banks.
5. Trade related bills/cheques received for collection, duly assigned favour of the bank.
6. Export LC received form Iran favouring our customers.
7. Iranian banks commitment to pay under Usance LC at specified maturities.
8. Irrevocable assignment of receivable under progress payment certificates (PPC) of government and reputable companies' projects favoring the bank.
9. Acceptable shares/ stock and valuable papers (bonds)
10. Acceptable official or bonded warehouse receipts.

11. Life insurance cover, (duly assigned in favor of the bank)

12. Promissory notes

13. Hypothecation of stocks and insurance thereof with banks mortgage clause.

14. Continuing guarantee of (independent) third party (other than the borrower).

15. Continuing guarantee of borrowers themselves and their own account with the bank or other banks.

16. Guarantees and securities obtained by other branches of bank BSI Iran outside UAE according to the local foreign exchange regulation and with the approval of the head office through regional office.

Note: **1:** Securities and guarantee for the credit facilities must be valid, easily salable and recoverable and must be sufficient to cover the dues to the bank: (principle, interest and any other charges/ expenses).

2: Margins for various securities /collaterals and or guarantees acceptable in the branches will be determined by the regional credit committee.

Table 7ABC-4

"The main types of guarantor/credit derivative counter-party and their credit worthiness"

GENERAL

A guarantee is a written promise to answer for the debt of another person (principal debtor) to whom the guarantor is already or is about to become liable.

The handling of advances against guarantees needs special care because the guarantor will often be ready to take advantage of any error or omission by the Bank to avoid liability. It is common experience that when the guarantor is called upon to meet the obligation, unpleasantness may ensue, and it is sometimes necessary to resort to legal action. However, it is sometimes expedient to accept unsecured guarantees but, as a general rule, security should be taken to support the guarantee, which in itself should cause the guarantor to reconsider his position and realize the implications involved.

Guarantees from relative or from those who would be presumed to exert influence (husband/wife, doctor/client, solicitor/client etc.) are fraught with danger. A guarantee from a member of the staff of the Bank should never be accepted.

As per the extant instructions, Branch should continue to obtain Continuing Guarantee form (printed document) duly signed by both the principal debtors and Guarantors.

The following precautions are being taken in advancing money on a guarantee.

- The Continuing Guarantee should be signed before any advance is made, and only after the guarantor has had it clearly explained to his exactly what his commitment entails. The guarantee should only be signed in the Bank in the presence of a witness, or where required under local law in presence of at least two witnesses.
- No guarantee should be taken without being satisfied that the guarantor not only is sound but will continue to be able to redeem his promise without any embarrassment. No guarantee should be taken from a minor.
- If a guarantee covers only a part of a customer's indebtedness to the Bank, the guaranteed account must be kept separately in order that the Bank's claim on the Guarantor can be precisely established.
- If a guarantee is given by more than one person, liability should be stated as joint and several.
- Though the banker is not bound to disclose all he knows about his customer's dealings, he must not conceal from the guarantor any facts materially affecting the transaction.

Table 7ABC-5

"Information about (market or credit) risk concentrations within the mitigation taken"

Risk concentrations of the maximum exposure to the credit risk

A risk concentration is any single exposure or group of related exposures with the potential to produce losses large enough to threaten the bank's health or ability to maintain its core operations. Risk concentrations are undoubtedly the single most important cause of major problems in the banking industry. Credit risk concentration arises in both direct exposures to obligors and may also occur through exposure to protection providers such as guarantors.

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The financial assets of the Bank, before taking into account any collateral or provision held in the books or other credit enhancements, can be analyzed by the following geographical regions:

Geographic regions	2014 AED'000	2013 AED'000
Middle East	11,848,085	11,330,901
Iran	6,507,473	6,979,284
O.E.C.D	17,844	18,343
Other	0	0
Total	18,373,402	18,328,528

Industry Sector	2014 AED'000	2013 AED'000
Wholesale and retail trade	8,057,901	7,751,565
Government	-	-
Construction	481,883	433,069
Mining and quarrying	105,358	92,129
Services	1,414,200	1,321,793
Personal Loans	27,824	42,565
Manufacturing	408,953	430,570
Transport and communication	14,968	15,665
Financial institutions	7,862,315	8,241,172
Total	18,373,402	18,328,528

As per the above major Geographic and Obligor exposure is with the Iran and Financial Institutions due to the reason that the UAE stands as one of the major hubs for Import and Export of commodities in the Region resulting the Banks in the UAE to engage more in trade finance activity, due to this the Bank's main concentration is in Trade Finance activities between UAE and I.R. of Iran which is considered a home country exposure for the bank. The Bank understands the risk, as it is well aware and updated with the market situation in Iran. Furthermore, the Bank adopts more mitigating tools such as opening back to back L/C, collecting more securities, asking for more guarantees, as the goods are the major collateral in the L/C transactions the Bank is insisting on the customers to incorporate a clause of requirement of Inspection Certificate by authorized Inspection company and making Insurance of the underlying goods and commodities, as a mandatory clause. The titles of the shipping documents are consigned to the order of the bank and the goods are pledged to the Bank unless the funds are cleared.

In order to avoid excessive concentrations of risk, the policies and procedures of the Bank includes specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Table 10

TOTAL CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDIZED APPROACH AS ON 31.12.2014

(AED 000's)

Market Risk	Amount
Interest rate risk	
Equity position risk	
Foreign exchange risk	105,236
Commodity risk	
Total Capital Requirement	12,628

Table 13

EQUITY POSITION IN THE BANKING BOOK AS OF 31-12-2014

a) Qualitative Disclosures

The general qualitative disclosure requirement (Paragraph 824 of Basel II) with respect to equity risk, including: (AED 000's)

• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices

As at ______, the bank's total equity investment portfolio in the banking book amounted to AED __ % of which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note X to the consolidated financial statements under 'Significant Accounting Policies' Details of cost, market and fair value are reported in Note Y to the consolidated financial statements under the heading of "Non-Trading investments".

b) Quantitative Disclosures

1. QUANTITATIVE DETAILS OF EQUITY POSITION:

(AED 000's)

Type	Current Year		Previous Year	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities				
Collective investment schemes				
Any other investment				
Total				

2. REALIZED, UNREALIZED AND LATENT REVALUATION GAINS (LOSSES) DURING THE YEAR:

Gains (Losses)	Amount
Realized gains (losses) from sales and liquidations	
*Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	
**Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	
Total	

3. ITEMS IN (2) ABOVE INCLUDED IN TIER 1/TIER 2 CAPITAL:

(AED 000's)

Tier Capital	Amount
Amount included in Tier I capital	3,553,971
Amount included in Tier II capital	600,000
Total	4,153,971

4. CAPITAL REQUIREMENTS BY EQUITY GROUPINGS:

(AED 000's)

Grouping	Amount
Strategic investments	
Available for sale	
Held for trading	
Total capital requirement	

Table 14

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) AS OF 31-12-2014

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability, cash flows or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Management has established acceptable levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The Bank manages interest rate risk by matching the repricing of assets and liabilities through risk management strategies and monitors the positions on a daily basis to ensure they are maintained within established limits. Adherence to these limits is monitored by ALCO. Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income.

The following impact on the net interest income and regulatory capital for the year of an immediate and permanent movement in interest yield curves as at

(AED 000's)

Shift in Yield Curves	Net Interest Income	Regulatory Capital
+25 basis point	**8491**	
- 25 basis point	**8491**	

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.